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SUBJECT: EU MOVING QUICKLY FORWARD ON BIOFUELS; WINDOW FOR
ENGAGEMENT LIMITED

REF: BRUSSELS 117

11. (SBU) Summary: The EU-is considering biofuels sustainability and greenhouse gas reduction criteria that could all but eliminate importation of U.S. and Brazilian biofuels to Europe. Representatives from the European Parliament, the Brazilian Mission to the EU, and industry have all stressed to USEU the importance of U.S. involvement in the EU's regulatory process on the biofuels sustainability issue to ensure the U.S. and EU do not proceed on divergent paths. The French Presidency is pushing to complete the Climate and Energy package by the end of 2008, providing only six months for us to influence the outcome of this debate. The U.S. and EU have already had one DVC on biofuels sustainability criteria; USEU recommends we use Europe's August recess to plan how we can substantially step up the pace of our engagement, including by placing the issue on the agenda of the Fall Transatlantic Economic Council meeting. The Parliament and member states remain somewhat divided, so the opportunity still exists to engage and influence the EU through a combination of tripartite (with Brazil) and bilateral forums. End summary.

Industry Concerned with Path EU is Taking

12. (SBU) U.S. and European industry representatives have told USEU officials they are concerned that the rapid movement of the EU's proposed Renewables Directive (reftel), notably the biofuels aspect, has the potential to create substantial trade barriers between the U.S., EU, and Brazil. Unlike the U.S. Energy Independence and Security Act (EISA), which they said sent a strong signal to industry that the U.S. was prepared to support biofuels development, the biofuels paragraphs of the Renewables Directive do not provide many incentives for commercial development in Europe.

13. (SBU) Furthermore, industry officials believe that the proposed sustainability and greenhouse gas (GHG) reduction criteria could all but eliminate importation of U.S. and Brazilian biofuels to Europe. For U.S. biofuels, this is due primarily to the minimum life-cycle GHG savings requirements of biofuels over fossil petrol and diesel. Under the existing proposals, corn-based ethanol is not guaranteed to meet the EU proposed minimum 35% GHG savings, a number which could be increased to as high as 50% initially. By comparison, the U.S. Energy Independence and Security Act (EISA) dictates a

minimum 20% savings for corn-based ethanol. For Brazilian sugar cane ethanol, which can have over an 80% savings, the GHG threshold is not a concern, but the proposed sustainability requirements could lead to problems. The EU, specifically through the Parliament, is looking to enforce strict biodiversity standards that could eliminate many fuels from new Brazilian sugar cane fields.

¶4. (SBU) Even if certain biofuels do not meet EU standards, they still can be imported into Europe. However, they will not count toward EU biofuels or renewable energy targets, thereby providing a large disincentive to their use. In addition, at least one other proposal suggests that biofuels that do not meet EU standards count against GHG emissions for the importing country.

European Parliament Still Divided, but Moving Toward Accord

¶5. (SBU) The European Parliament remains divided on the final form they would like the biofuels portion of the Renewables Directive to take. The consensus seems to be to back off from the Commission's proposed 10% share of alternative fuels in transport by 2020, but it is unclear how far. The strongest push seems to be moving toward a 4% share in 2015, of which 20% would be from fuels other than first generation biofuels, with a Commission review at that point of the state of technology. The review would then advise the EU as to the next step, which could mean 8-10% in 2020, of which 40% would come from non-first generation biofuels. However, none of this is set, and the Commission will continue to press for 10%, as they claim anything less would encourage European

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industry to back away from biofuels.

Member States Generally in Agreement, but Details Unresolved

¶6. (SBU) Generally, it appears many Member States support amending the Commission proposal to change the biofuels targets and criteria, though there remain divisions over some of the details. The majority of countries agree with the proposal that would initially require biofuels to deliver a 35% life-cycle greenhouse gas savings over fossil fuels, with this threshold increasing to 50% in 2015. However, Denmark, the Netherlands, and the UK consider these targets to be too low (and in many cases their MEPs have expressed similar views); whereas Spain and Romania see the values as too high and France, Latvia, Hungary, and Poland wish to push the increase to 50% to 2018. (Note: This idea to have a stepwise increase appears to derive from EISA. MEPs, in particular, have referenced EISA when discussing the GHG savings thresholds. Under EISA, GHG savings are divided by technology, with 1st generation biofuels requiring a 20% savings, 2nd generation a 50% savings, and cellulosic biofuels a 60% savings. End note.)

¶7. (SBU) In particular France, the current Presidency of the EU, has begun to make stronger statements in recent weeks calling for increased focus on sustainability and social criteria for imports from non-EU countries. Specifically, France has reinvigorated discussion requiring third countries to have ratified several treaties, the Kyoto Climate Change Protocol among them, for those biofuels to count toward the EU targets. The Commission has fought strongly against these proposals, claiming they would conflict with WTO rules. Currently, the proposal simply states that the Commission will review every two years how biofuels producing countries stand on various social criteria, and then make recommendations as to how the EU should proceed.

¶8. (SBU) Germany, on the other hand, has been blamed by both MEPs and Commission officials for inhibiting the process.

MEP Anders Wijkman, Rapporteur for the Renewables Directive in Parliament's Environment Committee (ENVI), explained that in his opinion, Germany "does not believe in climate change," instead arguing that climate change policies are going to adversely affect economic growth. An official from DG-TREN echoed this sentiment, detailing his belief that the German members of the European People's Party-European Democrats (EPP-ED), the largest political party in the Parliament, have been working to derail the negotiations to try to push back the timeline.

Brazil Leading Developing Country Opposition, Looking to U.S.

¶9. (SBU) Brazil is very concerned with the direction EU legislation is moving, afraid that sustainability and social criteria will put a halt to Brazilian ethanol imports into Europe. Brazil's concerns do not stem from the GHG savings threshold-Brazilian sugar cane ethanol currently offers approximately an 80% GHG savings over fossil fuels-but more from questions over deforestation and labor situations in supplying countries. Brazil, supported by Argentina, Indonesia, Malawi, Malaysia, Mozambique, and South Africa, sent a letter to MEPs calling for maintaining the 10% target as well as using science-based approaches to develop criteria related to sustainability, biodiversity, and indirect land use change.

Support for U.S.-EU-Brazil Tripartite Discussions

¶10. (SBU) Industry, Parliament, and Brazil have recommended to USEU that the USG initiate a tripartite U.S.-EU-Brazil discussion to discuss sustainability requirements, methodologies, and the path forward, an approach that we have successfully used to work toward compatible biofuels standards (on which the three released a white paper last January). We have already begun a bilateral conversation on

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sustainability methodologies with the EU with a successful DVC in the spring, which included all relevant Commission DGs and EPA, DOE, USDA, State, and others from the U.S. side. The EU participants appreciated the effort and have asked to continue the discussion.

¶11. (SBU) MEP Wijkman believes there needs to be close trans-Atlantic cooperation on biofuels. He is concerned the U.S. has not been as engaged as it should be in the European discussion on these issues. The Commission is also very interested in close cooperation. It supports the concept of tripartite discussions, but has explained that the current timeline prevents it from starting the effort itself. Instead, a DG TREN official explained that if the U.S. or Brazil were to start the conversation, the Commission would very happily come to the table.

TEC as a Potential Forum for Discussion

¶12. (SBU) Comment: The EU lags the U.S. in developing scientific methodologies for determining biofuels greenhouse gas savings and "sustainability/land use" criteria. This, combined with the pressure France is applying to complete the legislative process by the end of the year, increases the chance the EU will regulate by sentiment rather than science. Parliament, in particular, appears to be relying on the work done by Tim Searchinger, which has been criticized by scientists from both sides of the Atlantic.

¶13. (SBU) USEU believes the USG must significantly step up our engagement with Brussels on biofuels sustainability criteria to ensure we adopt compatible standards. This issue

was discussed in the April U.S.-EU High level Regulatory Cooperation Forum, and we have had the DVC, but have no concrete plans for additional follow-up, including with the European Parliament. We recommend the interagency use the August lull to discuss possible next steps. These could include working now to schedule a follow-up DVC in mid-September (with an eye to additional DVCs, as necessary); a subsequent demarche to EU member states; visits in September and October by ranking Administration officials to discuss the issue with the European Parliament and member state representatives; and placing the issue on the agenda of the October Transatlantic Economic Council meeting. We should also consider using the tripartite format to buttress these bilateral efforts, and we will in any event want to develop a caucus of third countries we should work with to influence the policy deliberations in Brussels. USEU is willing to assist in whatever ways necessary. End Comment.

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